

# Real Economic Analysis

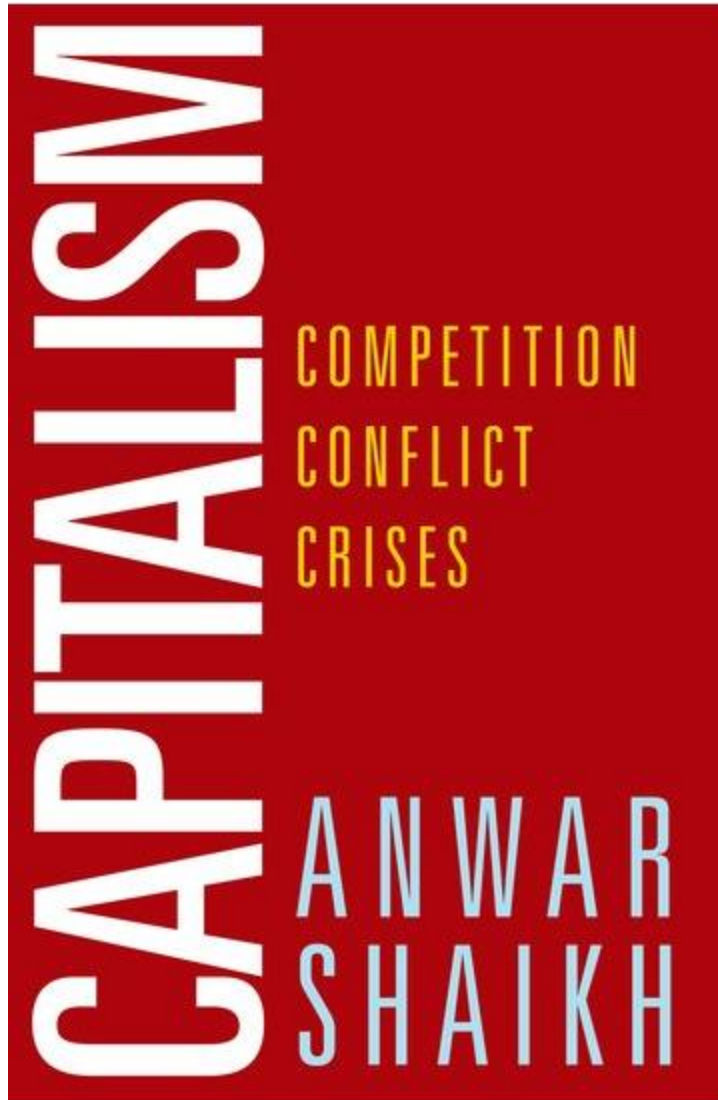
## Young Economists Conference

Austrian Society for Pluralist Economics  
and the INET Young Scholars Initiative

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Anwar Shaikh  
New School for Social Research

<http://realecon.org/>



"Üçün kuramla görgül çalışmayı olağanüstü harmanlamasıyla, çağdaş gelişmiş kapitalizmi oluşturan iş işi geçmiş adımları anlayıp güdülemek için Marx'ın Kapital'den bu yana belli de en kapsamlı yeni elinide. Shaikh'in kitabı, hem demin bir kavrayış sunmakta hem de açığa çıkardığı eksikliklerle ve istenmeyen toplumsal sonuçlarla başa çıkmanın uygun politikalarını kurgulamak için zemin hazırlamaktadır."

— G. C. Harcourt, İktisat Kuramı Tarihi Emeritus Öğretim Üyesi, Cambridge Üniversitesi ve New South Wales Üniversitesi, İktisat Fakültesi, Konuk Öğretim Üyesi

"Parmak sırttan bir hünar. Shaikh'in Kapitalizm'i mübadele, üretim, maliyet, rekabet, para, makro-devingenlik, kâr, ücret konularını kuramıyla, geçmişle, kanıtıyla eksiksiz ele alıyor. Demin bilgiyle harika yazılmış, aynı anda hem Klasik ve Keynesçi İktisadın baş döndürücü bir yenilenmesi hem de yarıtımculara indirgen sınırsız bir darbe. Tedina varilecek ve okunacak bir kitap, 150 yıldır bunun gibisi yazılmadık."

— James K. Galbraith, *The End of Normal and of Inequality: Why Everyone Needs to Know* yazarı, Lloyd M. Bentsen Jr. Hükümet/İş Dünyası İlişkileri Kürsüsü, Lyndon B. Johnson Kamu İşleri Fakültesi, Texas Üniversitesi, Austin

"Anwar Shaikh'in bu yeni kitabı, benzersiz bir iktisatçıdan tam bir yetenek gösterisi. Mikroiktisadi rekabettan girip makroiktisadi devingenlik ve burjuva kadar olan konuları derinlemesine ele alarak, Klasik İktisat kuramından çıkardığı sağlam kavrayış ile ekonofizik ve iktisadi karmaşıklığın keskin fikirlerini birbirine ustaca bağlıyor."

— J. Bardey Rosser Jr., İktisat Profesörü ve Kirby L. Cramer Jr. İşletme Yönetimi Profesörü, James Madison Üniversitesi

"Anwar Shaikh'in basyapıtı, bir kuşağın çıkarabileceği en önemli iktisat kitaplarından biridir. İktisadın gittikçe daha anlaşılabilir ve başka dünyaya olmaya başladığı bir dönemde, Shaikh gerçek soyutlamalara dayalı bir İktisat kuramının genelli olduğunu göstermekte katımsız, yapılabiliğini de sergiliyor. Bu kitap yabanc iktisatçılar için değil, kapitalizmin nesi işlediğiyle ilgilenen herkes için kalıcı önemdedir."

— Vivek Chibber, Sosyoloji Profesörü, New York Üniversitesi

"Anwar Shaikh'in bu yepyeni barış gün, hem hacmiyle hem içeriğiyle, çevirenken en heyecan verici, okurken en bilgilendirici kitapların başında geliyor."

— Ümit Şenese, İstanbul Teknik Üniversitesi, Emekli Öğretim Üyesi



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ANWAR  
SHAIKH

KAPİTALİZM

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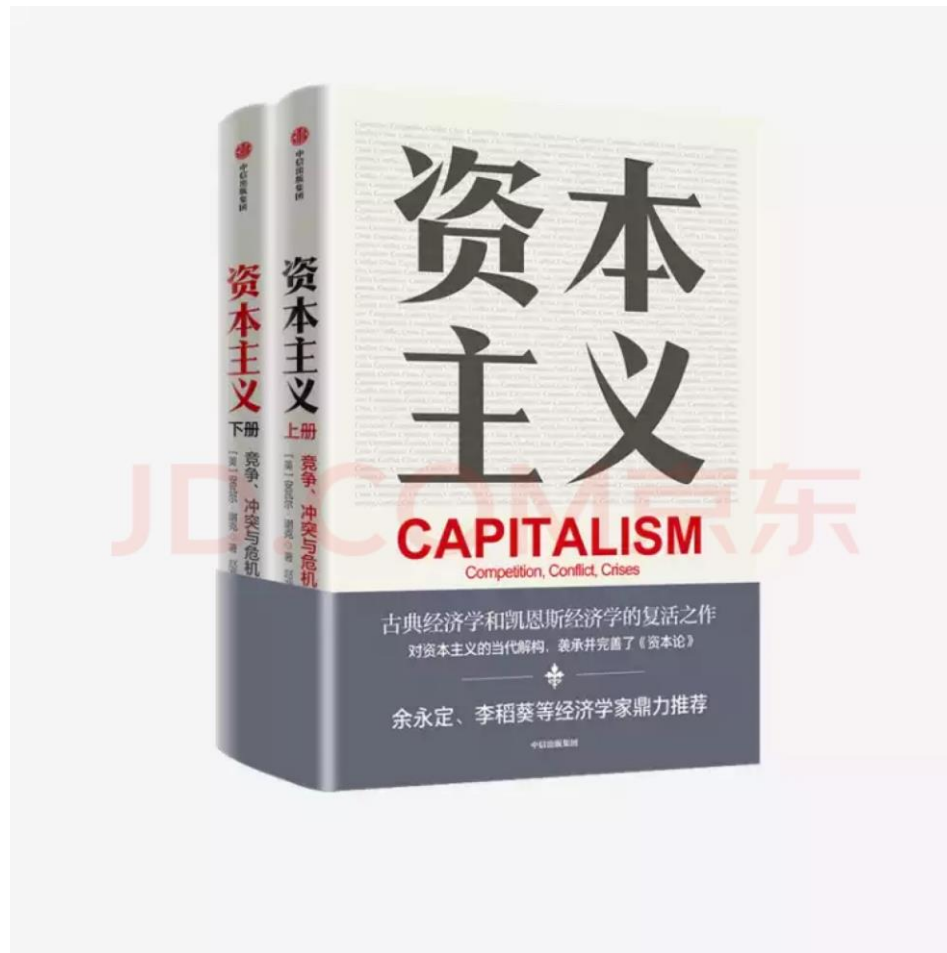
REKABET  
ÇATIŞMA  
BUNALIMLAR

TÜRKÇESİ: ÜMİT ŞENESE

ANWAR  
SHAIKH

İKIRMAZI İ

Awarded the 2021 Yicai-J.P. Morgan Prize for the Financial Book of the Year



Fondo de Cultura Economica

ANWAR SHAIKH

# Capitalismo

**Competencia,  
conflicto,  
crisis**

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OBRAS DE ECONOMÍA

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# The 2021 Yicai-J.P. Morgan Financial Book of the Year.

The Chinese edition of my book was selected as The 2021 Yicai-J.P. Morgan Financial Book of the Year.

- Yicai Media Group, formerly the China Business Network, is China's largest financial media conglomerate. And of course, J.P. Morgan needs no introduction.
- According to the Yicai website "the Yicai-J.P. Morgan Financial Books of the Year has become the most recognized financial publications list in China. Authored in both Chinese and English, the titles are selected via a rigorous process of recommendations, public votes and committee evaluations measured against the criteria of global perspective, insight and foresight".
- Last year's list of recommended books included those by Ray Diallo, Thomas Piketty, William Buiter and Jeffrey Sachs. For this year, in another category, Daniel Kahneman and Olivier Sibony also received a prize.
- This is a video explaining my work.

<https://1drv.ms/u/s!AjqyFu2Cja4CgaY8TK8bJKAp7tX31Q?e=ebHUD7>

# I. Basic themes

1. All Equilibration Processes are Dynamic and Turbulent
  - no equilibrium *states*
2. Consumer micro is based on heterogeneous agents acting in socially acculturated manners.
  - Stochastic analysis can be used to show how this yields standard market level downward sloping demand curves, different elasticities for necessary and luxury goods, and at the aggregate level the Keynesian consumption function, etc.
3. Business behavior is driven by the incessant desire for more profit
  - Real competition is radically different from perfect *and* imperfect competition
4. Aggregate effective demand is grounded in real competition in which investment is motivated by its *net* expected rate of return on investment: rate of return – rate of interest
  - Similar to Keynes' notion of the excess of the Marginal Efficiency of Capital (MEC) over the interest rate
5. I apply these and other theoretical notions to actual empirical patterns
  - *Fully half of the book is about actual empirical patterns*

## *I am in favor of pluralism*

- Pluralism is a broad tent. On the Left, there is the pluralism of concerns, such as race, gender, class conflict, environment, inequality, economic history, the history of economic thought, economic development, and the recurrence of economic crises.
- There is the pluralism of theories, such as Institutional, Classical, Marxian, Neoclassical, Keynesian, and Post-Keynesian approaches.
- And there is the pluralism of politics, ranging from social democratic to anti-capitalist and anti-imperialist.
- This includes the domain of power relations. But I would argue that one must first begin with the domain of the power of capitalist markets, the power of profit, over economic patterns.
- Only then can one identify what phenomena arise from the power of market competition and the power of monopoly, social struggles, the state, etc.



## *I am opposed to eclecticism*

How does one incorporate this variety into one's own thinking about how the world works?

- One answer, perhaps the dominant answer on the Left, is eclecticism: to use whatever best serves some particular interest.
- So, one can declare opposition to conceptions of "Economic Man", perfect competition, rational choice in one breath *and then turn to game theory and production possibility curves derived from these same foundations that one supposedly rejects.*
- Or one can add in selected "imperfections" and "externalities" in order to explain to particular observed phenomena. This is the dominant position not only on the Left, but within orthodoxy itself. It has the advantage of speaking to the economic orthodoxy on their terms, which is politically easier and certainly wiser in terms of career prospects.
- But this inevitably ties one to the orthodoxy, as point of reference and point of departure for all: "imperfections" and "externalities" refer back to perfections
  - *You become a practical Priest, but you remain in the Church*

Theories have a logical structure which acts a discipline on our hopes.  
*They organize our understanding of the world.*

- They are never complete. Rather they force us to consider how new arguments are related to the rest of the structure.
- One of their important functions is to warn us about what may *not* be likely even though we may wish it otherwise.
- For instance, it is sometimes argued on the Left that a rise in wage is not only good for workers but also for business since it raises worker's consumption and hence aggregate demand: Win-win.
- Yet the history of wage struggles is written in blood because of the vociferous and sometimes violent resistance of business at both individual and political levels.
- Is this because capitalists are insufficiently schooled in economics, or because economics is insufficiently schooled in the operations of capitalism?
- I have long argued the second position: an appropriate *economics framework must understand the factors that drive labor and capital*

- The goal of my work is to show that there is a coherent framework which I call Real Economic Analysis (REA) built from Classical, Marxian and Keynesian roots— by elaboration, correction and extension, all in reference to the actual patterns of capitalism
- This framework is capable of explaining many observed patterns of economic life.

# **Capitalism: Competition, Conflict, and Crises**

Anwar Shaikh

*Oxford University Press, February 2016*

## **PART I. FOUNDATIONS OF THE ANALYSIS**

1. Introduction
2. Turbulent trends and hidden structures
3. Microfoundations and macro patterns
4. Production and costs
5. Exchange, money and price
6. Capital and profit

## **PART II. REAL COMPETITION**

7. The theory of real competition
8. Debates on perfect and imperfect competition
9. Competition and interindustrial relative prices
10. Competition, finance, and interest rates
11. International competition and the theory of exchange rates

## **PART III. TURBULENT MACRODYNAMICS**

12. The rise and fall of modern macroeconomics
13. Classical macrodynamics
14. The theory of wages and unemployment
15. Modern money and inflation
16. Growth, profitability, and recurrent crises

## Real Competition (Chs. 7-9)

*Perfect Competition* is the Garden of Eden from which we were expelled due to our imperfections -- typically blamed on a woman.

*Real competition* is the driving force of real capitalism

- The driving force is the profit-driven market
- *So be sinful , at least for today , and consider it*

# Real Competition (Chs. 7-9)

## I. Introduction

1. Competition is warfare
  - The mobility of capital is inherent in its existence
2. Real competition is the central regulating mechanism of capitalism

## II. Real competition within an industry

1. Firms always set prices
  - But competition from other firms in the same industry determines what prices are *sustainable*.
  - *Hence competition itself determines the sustainable “markup”*

**Neoclassical macroeconomics** is **supply-side** because it claims that in the short run the level of output is determined by the profit-maximizing utilization of the stock of capital and the full employment of the stock of labor.

- If the labor supply is growing, then, over the long run, output and capital will adapt to the growth rate of labor.

**Keynesian and Post Keynesian macroeconomics** are **demand-side** because it claims that the short-run output (and hence the utilization of capital and the employment of labor) is regulated instead by the relatively autonomous component of aggregate demand (autonomous consumption and investment).

- Then output growth derives from the growth of autonomous demand
- This may or may not be sufficient to maintain full capacity utilization and/or full employment of labor.
- *Hence the role of the State as the regulator of economic outcomes*

**Real Economics analysis** is neither supply-side nor demand-side: ***it is “profit-side.”***

- Profit operates on *both* demand and supply, on their levels and their growth paths.
- *“The engine which drives Enterprise is ... Profit (Keynes, 1976, 148)*

**Figure 7.14: US Manufacturing Average and Incremental Rates of Profit, 1960-1989**

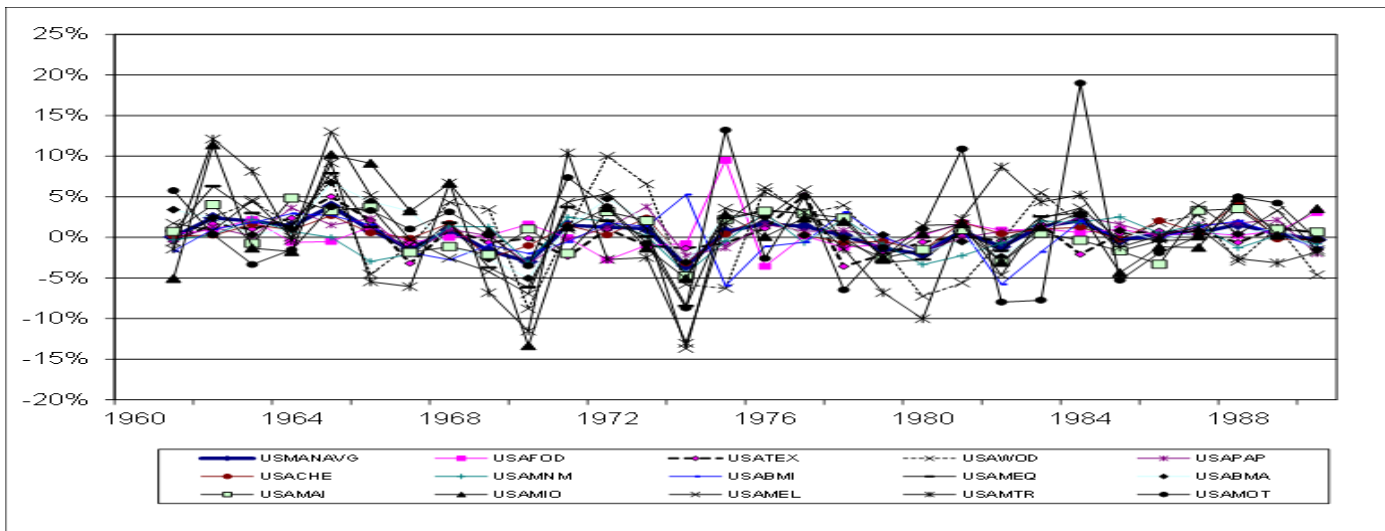
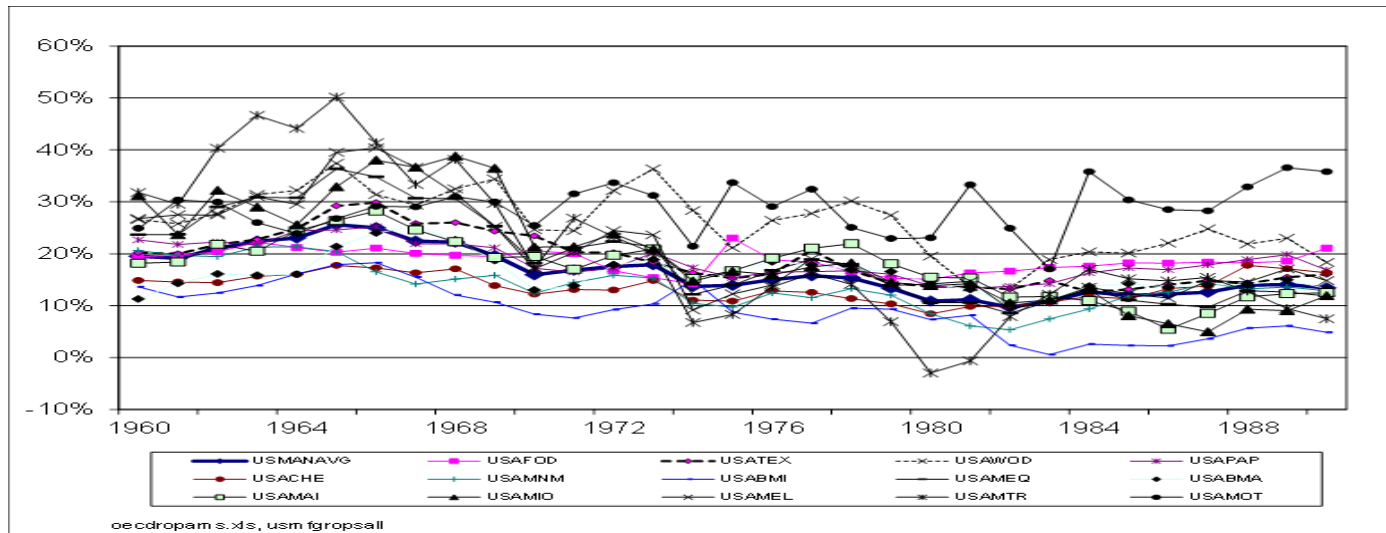
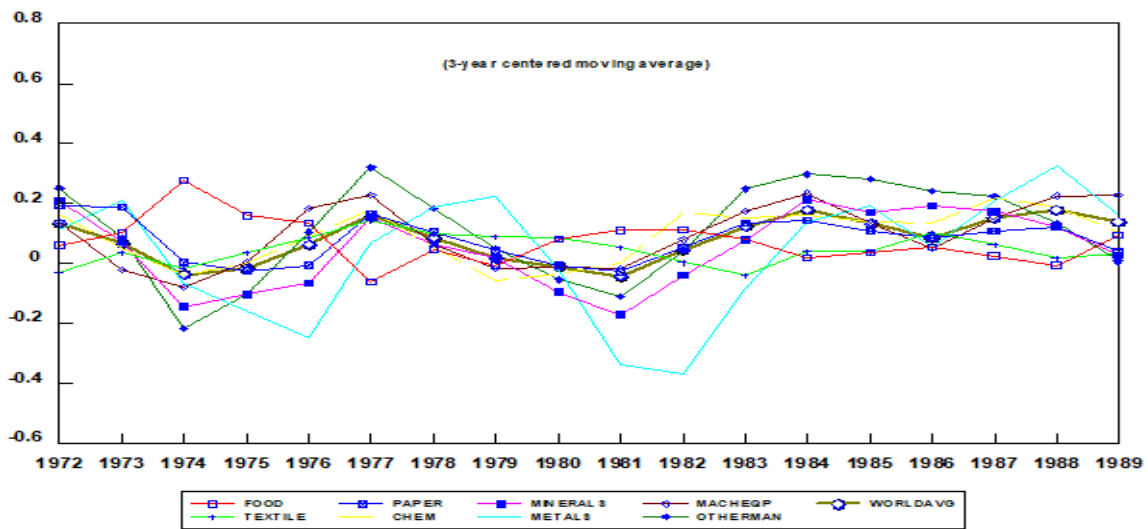
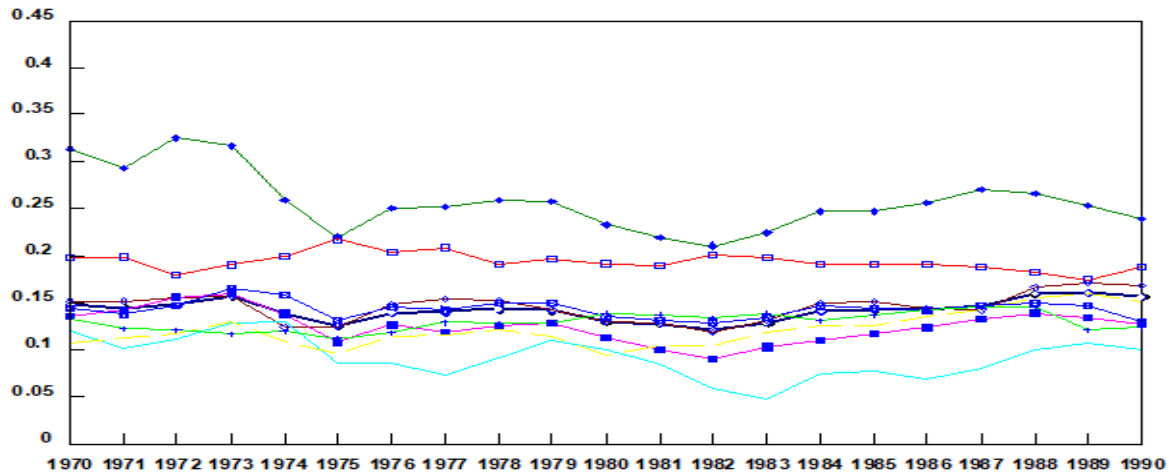




Figure 7.13: World Manufacturing Average and Incremental Rates of Profit, 1970-1989



- |         |       |           |          |            |
|---------|-------|-----------|----------|------------|
| FOOD    | PAPER | MINERAL S | MACH EQP | WORLD A VG |
| TEXTILE | CHEM  | METALS    | OTHERMAN |            |

## Real Competition (Chs. 7-9)

### III. Real competition between industries

1. Capital flows between industries are motivated by the rate of return on the best conditions of production
2. Interindustrial competition turbulently equalizes the rate of return on new investment – *the incremental rate of return on capital, i.e. the incremental rate of profit (IROR)*
  - Note that this is the same idea as Keynes's Marginal Efficiency of Capital (MEC)
  - *By implication, profit rates on average (old and new) capitals will not be equalized*
3. Industries with large scale firms will be subject to the same rule of profit rate of equalization

## Real Macroeconomics: Effects and limits to fiscal stimulus

1. Aggregate Investment is driven by the aggregate incremental rate of return – *just as Keynes argues*
2. A fiscal stimulus can pump up the economy and lower unemployment
3. But a tighter labor market raises real wages, and *if wages rise faster than productivity*, the wage share will rise which will reduce normal profitability
4. This in turn can reduce the normal growth rate – *unless it is offset by lower interest rate and/or higher productivity growth or induced increase in the labor force*
5. *I show in my book how this explains the failure of Keynesian policies in the 1970s, and why they gave rise to Stagnation with Inflation: Stagflation*

## Military Keynesian vs Post War Keynesian policies

1. Hitler's Germany
2. Roosevelt's Depression and War Effort
3. Postwar Keynesian and Stagflation
4. Collapse of the Phillips Curve
5. Reprise: Real Economic Analysis can provide a coherent theoretical explanation of these phenomena

None of the foregoing arguments require so-called rational choice or its attendant bevy of perfect behaviors and optimal outcomes. Hence there is also no need to attribute actual outcomes to deviations from Edenic states supposedly arising from "imperfections" of various sorts.

- Perfections and imperfections are yoked pairs, simultaneously abandoned.

This brings me back to the main theme of my argument in favor of a coherent framework: When economists propose policies that do not work out, the penalty is borne by those who suffer the consequences.

- We should make sure that our proposals are both theoretically *and* empirically grounded.

## Reprise

- I have tried to argue in favor of having a coherent framework for both micro and macro analysis
- I hope you will consider this possibility in your own thinking about the real economics of capitalism